DOCUMENT RESUME

ED 343 542 HE 025 417

TITLE	Stafford Student Loan Program. Correspondence Schools' Loan Volume Declines Sharply. Fact Sheet for the Chairman, Committee on Labor and Human Resources, U.S. Senate.
INSTITUTION	General Accounting Office, Washington, D.C. Div. of Human Resources.
REPORT NO	GAO/HRD-92-62FS
PUB DATE	Mar 92
NOTE	16p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 (first copy free, additional copies $2.00 each).
PUB TYPE	Reports - General (140)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	College Students; *Correspondence Schools; Federal Government; Financial Support; Higher Education; *Loan Default; *Loan Repayment; Paying for College; Postsecondary Education; *Student Financial Aid
IDENTIFIERS	*Stafford Student Loan Program

ABSTRACT

This report examines the extent to which correspondence schools participate in the Stafford Student Load Program and the rates at which students from these schools default on their student loans. It is revealed that the average borrower default rate for students attending correspondence schools was more than double the rate, 42.2 percent versus 18.3 percent, for all schools participating in the Stafford program during fiscal years 1987-89. Thirty correspondence schools were eligible to participate during this period and their students received about $743 million in student loans. However, 16 of these schools (accounting for 91 percent of the $743 million in loan volume) no longer participate in the program. It is noted that if these 16 schools are excluded, the average default rate for correspondence schools drops to 27.8 percent. Appendices include the loan volumes for students attending correspondence schools between fiscal years 1987-89; and student loan default rates for correspondence schools that participated, including those that no longer participate, in the Stafford Loan Program in fiscal years 1987-89. (GLR)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

United States General Accounting Office

GAO

Fact Sheet for the Chairman, Committee on Labor and Human Resources, U.S. Senate

March 1992

STAFFORD STUDENT LOAN PROGRAM

Correspondence Schools' Loan Volume Declines Sharply

HE 025 417

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

BEST COPY AVAILABLE

GAO/HRD-92-62FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-244646

March 13, 1992

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

Dear Mr. Chairman:

This report responds to your request for information on correspondence schools' participation in the Stafford Student Loan Program.[1] Correspondence schools that participate in the Stafford program are generally proprietary (for-profit) trade schools that offer postsecondary education to individuals choosing to further their education through home study. You asked that we determine the (1) extent that correspondence schools participate in the Stafford program and (2) rates at which students from these schools default on their student loans.

On August 2, 1991, we briefed your office on the preliminary results of our analysis. This fact sheet summarizes and expands on the information provided at that meeting.

Results in Brief

The average borrower default rate for students attending correspondence schools was more than double the rate—42.2 percent versus 18.3 percent—for all schools participating in the Stafford program during fiscal years 1987-89. Thirty correspondence schools were eligible to participate during this period and their students received about $743 million in student loans. However, 16 of these schools (accounting for 91 percent of the $743 million in loan volume) no longer participate in the program. If these 16 schools are excluded, the average default rate for correspondence schools drops to 27.8 percent.

Background

Correspondence schools typically mail course materials to their students who mail completed lessons back to the school for reviewing and grading. Their courses of study vary and include subjects such as airline and travel agent training, truck driving, and radio announcing. Some correspondence schools, such as those offering heavy equipment and truck driving courses, augment their home study course work with resident training.

[1]This program, authorized by title IV of the Higher Education Act of 1965, as amended, includes Stafford loans; Supplemental Loans for Students (SLS); Parent Loans for Undergraduate Students (PLUS); and consolidated loans. In this report we refer to all of these as loans made to students.

Correspondence schools, like other schools participating in federal student aid programs, must be (1) licensed by a state agency, (2) accredited by an agency recognized by the Secretary of Education, and (3) determined eligible and certified by the Department of Education. The Accrediting Commission of the National Home Study Council is the Department-recognized accrediting agency for these schools. A school that loses its accreditation is no longer eligible to participate in federal student financial assistance programs. The Department also can limit, suspend, or terminate a school's participation if it violates program requirements. Schools also can withdraw from the program.

Scope and Methodology

We obtained and analyzed information from the National Home Study Council and the Department of Education to determine the extent to which correspondence schools participate in the Stafford program. The Council provided information on which schools it accredits and the Department provided student loan volume data for borrowers enrolled in these schools during fiscal years 1987 through 1990.

We also obtained default rate information for fiscal years 1987-89 from the Department to determine the extent correspondence school students default on their student loans. The Department calculates an annual cohort default rate for all schools having at least 30 Stafford and/or SLS borrowers who entered repayment in a given fiscal year and defaulted either in that same year or by the end of the next fiscal year. For example, the 1988 cohort represents borrowers who entered repayment in fiscal year 1988 and subsequently defaulted by the end of fiscal year 1989.

The Department's loan volume and default rate data were the most recent information available at the time of our review. We did not verify the accuracy of the Department's data. For the schools that were not participating in the program as of September 15, 1991, we obtained information from the Department on the reasons why they no longer participate.

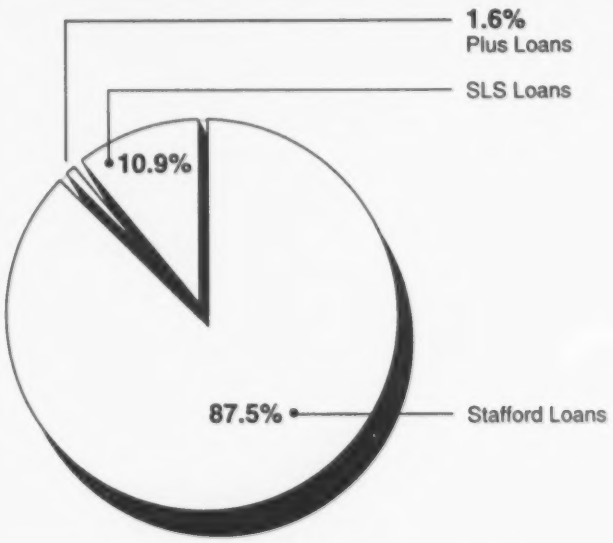
We conducted our review between May and August 1991 in accordance with generally accepted government auditing standards. Other selected GAO products concerning student loans and defaults are listed opposite the inside back cover of this fact sheet.

Correspondence School Participation Is Declining

Of over 8,000 schools that were eligible to participate in the Stafford program in fiscal year 1989, 30 were correspondence schools. About $743 million in Stafford loans, PLUS loans, and SLS loans were received by students at these 30 schools during fiscal years 1987-89. This amount represents about 2 percent of the $34 billion in loans made to all borrowers during those fiscal years.

Figure 1 shows that about 88 percent of the $743 million in loans were Stafford loans. Appendix I shows, for each kind of loan, the amounts received by students at the 30 schools.

Figure 1: Student Loans Received by Correspondence School Students
(Fiscal Years 1987-89)

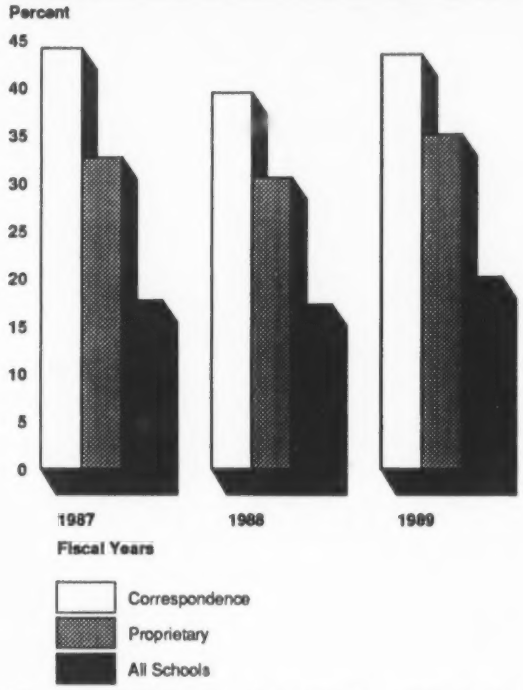


Fourteen schools that were still eligible as of September 15, 1991, accounted for about $68 million (9 percent) of the $743 million in loans made during fiscal years 1987-89. The remaining 16 correspondence schools are no longer participating in the Stafford program. These 16 schools accounted for about $675 million (91 percent) of the $743 million in loans made to correspondence school students for fiscal years 1987-89. The 16 schools no longer participate because they went out of business, lost their accreditation, or voluntarily withdrew from the Stafford program. Department of Education program officials told us that sanctions they levied or planned to levy against some of these schools have also contributed to fewer correspondence schools participating.

Correspondence Schools Had Higher Than Average Loan Default Rates

The average default rate for students attending correspondence schools was 42.2 percent—more than double the average default rate of 18.3 percent for students from all schools participating in the Stafford program during fiscal years 1987-89. (See fig. 2.)

Figure 2: Average Default Rates by Kind of School (Fiscal Years 1987-89)[a]



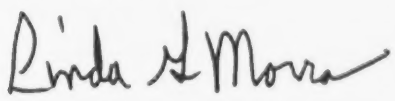
[a]The default rates for all schools and proprietary schools include the defaulted loans of students attending correspondence schools.

The 16 schools no longer participating as of September 15, 1991, had an average default rate of 43.8 percent during fiscal years 1987-89. (See app. II.) If these 16 schools are excluded, the average borrower default rate for correspondence schools for that 3-year period drops to 27.8 percent. (See app. III.)

As agreed with your office, we did not obtain written comments on this fact sheet from the Department of Education or other interested parties. We did, however, discuss its contents with Department program officials, who agreed with its findings. We incorporated their comments where appropriate.

We are sending copies of this fact sheet to other congressional committees, the Secretary of Education, and other interested parties. Should you wish to discuss its contents, please call me on (202) 512-7014. Other major contributors to this fact sheet are listed in appendix IV.

Sincerely yours,



Linda G. Morra
Director, Education and
Employment Issues

Contents

Letter	1
Appendix I Loan Volumes for Students Attending Correspondence Schools (Fiscal Years 1987-89)	8
Appendix II Student Loan Volumes and Default Rates for Correspondence Schools No Longer Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)	10
Appendix III Student Loan Volumes and Default Rates for Correspondence Schools Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)	11

Appendix IV
Major Contributors to This Fact Sheet 12

Related GAO Products 16

Figures

Figure 1: Student Loans Received by Correspondence School Students (Fiscal Years 1987-89) 3
Figure 2: Average Default Rates by Kind of School (Fiscal Years 1987-89) 4

Abbreviations

PLUS Parent Loans for Undergraduate Students
SLS Supplemental Loans for Students

Loan Volumes for Students Attending Correspondence Schools (Fiscal Years 1987-89)

Dollars in thousands

School	Kind of loan			
	Stafford	PLUS	SLS	Total
USA Training Academy, Inc.	$190,634	$837	$21	**$191,492**
American Career Training Travel School	128,200	318	1,629	**130,147**
Superior Training Services	104,696	677	13,681	**119,054**
United Schools, Inc.	78,514	2,599	34,895	**116,008**
County Schools, Inc.	66,917	567	2,059	**69,543**
National Training, Inc.	21,656	154	2,677	**24,487**
National Training Systems, Inc.	13,819	145	4,612	**18,576**
International Aviation and Travel Academy	8,442	1,892	4,915	**15,249**
Columbia School of Broadcasting	5,034	965	8,825	**14,824**
Northwest Schools	9,064	691	4,198	**13,953**
Andover Tractor Trailer School, Inc.	10,337	63	1,314	**11,714**
Southeastern Academy, Inc.	6,303	2,631	317	**9,251**
Southern Career Institute	2,857	0	1	**2,858**
Executive Security International, Ltd.	348	22	661	**1,031**
Hospitality Training Center, Inc.	710	2	303	**1,015**
Cleveland Institute of Electronics, Inc.	810	0	32	**842**
California College for Health Sciences	309	3	450	**762**
MTA School	583	39	35	**657**
National Learning Process Center	362	7	254	**623**
Hollywood Scriptwriting Institute	334	0	142	**476**
Global Academy	92	40	21	**153**
Hemphill Schools	3	0	0	**3**
Trans World Travel Academy	3	0	0	**3**
United Training Institute, Inc.	3	0	0	**3**

(continued)

Appendix I
Loan Volumes for Students Attending Correspondence Schools (Fiscal Years 1987-89)

Dollars in thousands

School	Kind of loan			Total
	Stafford	PLUS	SLS	
Career One Home Study Corporation	0	0	0	**0**
International Correspondence Schools	0	0	0	**0**
ICS Center for Degree Studies	0	0	0	**0**
Stenotype Institute of Jacksonville, Inc.	0	0	0	**0**
Wilma Boyd Career Schools	0	0	0	**0**
Worldspan Travel Academy	0	0	0	**0**
Totals	**$650,030**	**$11,652**	**$81,042**	**$742,724**

Source: Department of Education.

Student Loan Volumes and Default Rates for Correspondence Schools No Longer Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)

Dollars in thousands

School	Loan volume	Borrower default rate (in percent)			
		1987	1988	1989	Average[a]
USA Training Academy, Inc.	$191,492	57.8	53.5	48.5	54.2
American Career Training Travel School	130,147	19.3	26.9	36.8	31.7
Superior Training Services	119,054	35.7	45.0	56.4	44.7
United Schools, Inc.	116,008	28.9	30.4	38.5	33.2
County Schools, Inc.	69,543	51.9	37.2	47.6	46.1
National Training Systems, Inc.	18,576	51.4	28.7	59.2	47.3
Northwest Schools	13,953	17.7	13.7	31.3	22.1
Andover Tractor Trailer School, Inc.	11,714	32.2	39.7	58.2	48.9
Southern Career Institute	2,858	7.3	13.9	19.7	18.0
MTA School	657	26.8	21.7	57.1	28.4
National Learning Process Center	623	0.0	0.0	34.5	34.5
Global Academy	153	0.0	0.0	0.0	0.0
Hemphill Schools	3	0.0	0.0	0.0	0.0
Career One Home Study Corp.	0	0.0	0.0	0.0	0.0
ICS Center for Degree Studies	0	0.0	0.0	0.0	0.0
International Correspondence Schools	0	25.0	0.0	0.0	20.0
Total	**$674,781**				
Average default rates		45.4	40.8	45.6	43.8

[a]The 3-year average default rate was computed by aggregating the number of borrowers for fiscal years 1987-89 and dividing that number into the cumulative number of defaulted borrowers for those 3 years.

Source: Department of Education.

Student Loan Volumes and Default Rates for Correspondence Schools Participating in the Stafford Program As of September 15, 1991 (Fiscal Years 1987-89)

Dollars in thousands

School	Loan volume	Borrower default rate (in percent)			
		1987	1988	1989	Average[a]
National Training, Inc.	$24,487	23.7	32.2	42.0	34.7
International Aviation and Travel Academy	15,249	39.7	33.7	27.1	32.0
Columbia School of Broadcasting	14,824	37.2	25.1	14.8	25.6
Southeastern Academy, Inc.	9,251	0.5	4.6	8.2	5.7
Executive Security International, Ltd.	1,031	0.0	0.0	0.9	0.9
Hospitality Training Center, Inc.	1,015	66.7	36.4	21.7	25.4
Cleveland Institute of Electronics, Inc.	842	27.7	30.2	29.1	29.1
California College for Health Sciences	762	16.0	13.0	8.9	13.3
Hollywood Scriptwriting Institute	476	17.5	33.0	13.9	22.7
Trans World Travel Academy	3	0.0	0.0	0.0	0.0
United Training Institute, Inc.	3	0.0	0.0	0.0	0.0
Stenotype Institute of Jacksonville, Inc.	0	0.0	0.0	0.0	0.0
Wilma Boyd Career Schools	0	0.0	0.0	0.0	0.0
Worldspan Travel Academy	0	0.0	0.0	0.0	0.0
Total	**$67,943**				
Average default rates		30.0	22.0	27.1	27.8

[a]The 3-year average default rate was computed by aggregating the number of borrowers for fiscal years 1987-89 and dividing that number into the cumulative number of defaulted borrowers for those 3 years.

Source: Department of Education.

BEST COPY AVAILABLE

Major Contributors to This Fact Sheet

Human Resources Division, Washington, D.C.	Joseph J. Eglin, Jr., Assistant Director (202) 512-7012 Christopher C. Crissman, Advisor
Seattle Regional Office	Charles M. Novak, Regional Education Issue Area Manager Charles H. Shervey, Evaluator-in-Charge Susie Anschell, Evaluator Stanley G. Stenerson, Evaluator

Related GAO Products

Student Loans: Characteristics of Defaulted Borrowers in the Stafford Student Loan Program (GAO/HRD-91-82BR, Apr. 26, 1991).

Defaulted Student Loans: Analysis of Defaulted Borrowers at Schools Accredited by Seven Agencies (GAO/HRD-90-178FS, Sept. 12, 1990).

Supplemental Student Loans: Legislative Changes Have Sharply Reduced Loan Volume (GAO/HRD-90-149FS, Aug. 3, 1990).

Financial Problems in the Stafford Student Loan Program (GAO/T-HRD-90-52, July 27, 1990).

GAO Views on the Stafford Student Loan Program (GAO/T-HRD-90-13, Feb. 20, 1990).

Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989).

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989).

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988).

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988).

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987).

Ordering Information

The first copy of each GAO report is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.